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Preparations for the special session of the General Assembly entitled "World Summit for Social Development and beyond: achieving social development for all in a globalizing world: consideration of any other proposals to be submitted to the General Assembly at its special session"

Resources for social development: additional and innovative measures

Report of the Secretary-General

1. The Preparatory Committee for the Special Session of the General Assembly on the Implementation of the Outcome of the World Summit for Social Development and Further Initiatives at its first substantive session in May 1999, in paragraph 23 of the annex to its decision,[1] requested the Secretary-General, in collaboration with relevant organizations, to present a report to the Preparatory Committee at its second substantive session with proposals for additional and innovative sources to obtain resources for social development. The present report is presented in response to this request and highlights innovative proposals in raising funds for the needs of social development.

2. Mobilization of additional resources for social development remains an acute challenge for all countries. Therefore additional and innovative measures may well have to include means both to increase the share of public expenditure in gross domestic product (GDP) and to relocate public expenditures in favour of social development. Both the share and the composition of public expenditure can be seen as indicators, reflecting how much importance is attached to social development objectives among many factors and competing priorities. Overall social budgeting (that is to say, earmarking of a share of budget allocations to specific social purposes) plays an important and often increasing role in budget formulation. Because social expenditures are especially vulnerable to fluctuations in GDP, fiscal stabilization is an important precondition for maintaining them. At the same time, many Governments strive to ensure cost-effectiveness of social spending by improving the mechanisms for social investment.

3. While mobilization of resources for social development may be country-specific, there are

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numerous additional national sources that could be mobilized for social development if coordinated action, backed up by political will, is taken by Governments and the international community. The prerequisites of such action include, *inter alia*, transparency, and minimization or removal of discretion in tax law and administration, principally to reduce the opportunities for corruption, tax evasion and erosion of tax receipts, as well as addressing those aspects of globalization and liberalization that tend to erode existing sources of public finance. Therefore, action at local, national and global levels are often interrelated and, in a number of cases, a link between national and international action would be beneficial for social development finance. When considering the variety of paths available for mobilizing and reallocating resources, Governments will have to weigh the possible economic burdens and political costs of each proposal against potential pay-offs in terms of social development.

4. One of the responsibilities of Governments is to ensure macroeconomic stability that increases time-horizons and decreases uncertainty. A stable and predictable environment is also crucial for increasing confidence of foreign investors and lenders. One element of macroeconomic stability that is particularly important in mobilizing resources for social development is a well-organized financial system. Such a system, including reliable banking, provides a foundation for social development as it increases opportunities for channelling of the resources into the priority areas of public concern. At the same time, excessive rigidity of the financial system may be detrimental to the social policy efforts, as it could prevent the introduction of necessary adjustments required by domestic circumstances. Public authorities should ensure that controls and regulations do serve their intended purposes and that public policy is transparent.

5. The acquisition of resources through financial intermediation as well as community mobilization is an important way of increasing the domestic resource base. The erosion of existing sources of public finance should be resisted, while public resources should be more effectively secured for social development through tying revenue to outlay, and through fiscal stabilization. How revenue is allocated and whether social budgeting receives priority as part of the national budget cycle are a country-specific issue. It is a responsibility of the Governments to ensure that social sector expenditures both receive a fair share of additional tax revenues and do not suffer disproportionate cuts when revenue falls. Overall, the share of public expenditure allocated for social purposes is the outcome of numerous considerations, including the acuteness of social challenges at the national level, the contribution of the private sector resources for the solution of those problems and the amenability of those problems to solution by public sector intervention.[2]

6. In recent years, increased attention has been paid to new methods of intermediation for the benefit of the poor, such as commercialized microfinance.[3] Often this method of raising funds is associated with providing benefits to those unable to access formal finance from financial institutions and markets. Apart from emergence of microfinance institutions, a number of other innovations seeking to combine the best characteristics of the informal and the formal financial sector have appeared in recent years (for example, new linkages between formal and informal institutions, new microlending and small business credit schemes, downscaling of commercial banks and so forth). In essence, this method of mobilization of resources for social needs boils down to a question of removing obstacles to certain types of loan transaction that would be of value to both lenders and borrowers — with very poor people benefiting directly or indirectly. These methods have the great advantage that they can be employed without the need to raise or commit public funds, or at least without the need to do so after an initial period.[3]

7. Apart from various microfinance and credit creation schemes, other innovative ways of raising funds for social development have been explored at the national level. One of those has been increased participation of communities in provision of social services. Community participation for the planning, provision and maintenance of local infrastructure through mechanisms such as community contracting and remunerated labour-based public works, *inter alia*, in cooperation with national and international non-governmental organizations, can help to tap additional resources for social needs (A/AC.253/13-E/CN.5/2000/2, paras. 317-319).

Priorities for consideration

8. Governments may wish to consider further means to tap additional resources for social development at the national level by, *inter alia*:

- Providing the agencies responsible for local taxation with the legislative authority to apply local site-ownership levies based on increases in property values that result from the extension or improvement of local infrastructure;
- Full exploitation of the possibilities of taxes precisely targeted on the site-value of land and the rents of other mineral resources;
- Removal, in all countries retaining them, of tax allowances for bribes paid in foreign countries, as well as confiscation of illegally acquired funds.

9. At the international level, Governments may wish to consider further cooperative measures that would enable them to raise additional national revenues for social development by, *inter alia*:

- Negotiation of formulae, based on objective criteria, for dividing the liability of transnational corporations for paying tax on profits among the various jurisdictions in which they operate;
- Negotiation of limits on the form and extent of direct-tax incentives, and use of tax shelters and tax havens, as well as minimum levels of corporate taxation;
- Development of more effective international incentives and insurance for stabilization of fiscal expenditure in countries heavily dependent on primary exports;
- Exchange of information to prevent tax avoidance;
- A market-based revenue measure designed to be a disincentive to short-term international financial movements that threaten excessively rapid changes in effective exchange rates of particular currencies;
- Progressive negotiation of changes in national legislation to make possible (under suitable safeguards against inappropriate use) a system of exchange of information among tax authorities about the tax liabilities of transnational income-earners under their respective jurisdictions.

10. Apart from measures of a general nature, mobilization of additional resources could be undertaken in specific areas, for example, in health services. This could be done through devising arrangements and incentives to mobilize commercial enterprises — especially in pharmaceuticals — to invest in research aimed at finding remedies for diseases that afflict particularly people in developing countries and that can be provided at manageable cost; these efforts could be supported through international action to guarantee, by underwriting, markets of specified extent at specified maximum prices for drugs that meet agreed criteria.

11. Rather than constitute recommendations, the possibilities mentioned in this report are presented at the request of the Preparatory Committee for consideration as some areas for possible action within the context of a broad array of possible options.

Notes

[1] See *Official Records of the General Assembly, Fifty-fourth Session, Supplement No. 45* (A/54/45 and Corr.1), chap. VI, sect. B.

[2] See comprehensive report of the Secretary-General on the implementation of the outcome of the World Summit for Social Development (A/AC.253/13-E/CN.5/2000/2), of 14 December 1999, part one, sect. V, entitled "Mobilization and utilization of resources for social development".

[3] For details, see *World Economic and Social Survey 1999* (United Nations publication, Sales No. E.99.II.C.1), chap. VII, entitled "Bringing financial services to the poor".